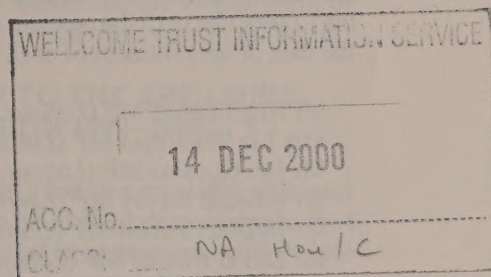


TREASURY COMMITTEE



Ninth Special Report

**THE PRIVATE FINANCE INITIATIVE:
SUPPLEMENTARY GOVERNMENT
RESPONSE TO THE COMMITTEE'S
FOURTH REPORT OF SESSION 1999–2000**

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The Treasury Committee

The Treasury Committee is appointed to examine on behalf of the House of Commons the expenditure, administration and policy of the Treasury, the Board of Inland Revenue and the Board of Customs and Excise (and any associated public bodies). Its constitution and powers are set out in House of Commons Standing Order No. 152.

The Committee has a maximum of twelve members, of whom the quorum for any formal proceedings is three. The members of the Committee are appointed by the House and unless discharged remain on the Committee until the next dissolution of Parliament. The present membership of the Committee, and the date of appointment of each member, are as follows:¹

Mr Nigel Beard MP (<i>Labour, Bexleyheath and Crayford</i>)	21 February 2000
Mrs Liz Blackman MP (<i>Labour, Erewash</i>)	16 July 1997
Mr Jim Cousins MP (<i>Labour, Newcastle upon Tyne Central</i>)	16 July 1997
Mr Edward Davey MP (<i>Liberal Democrat, Kingston and Surbiton</i>)	22 November 1999
Mr Michael Fallon MP (<i>Conservative, Sevenoaks</i>)	5 July 1999
Mr David Kidney MP (<i>Labour, Stafford</i>)	2 March 1998
Mr James Plaskitt MP (<i>Labour, Warwick and Leamington</i>)	29 November 1999
Mr Giles Radice MP (<i>Labour, Durham North</i>)	16 July 1997
Mr David Ruffley MP (<i>Conservative, Bury St Edmunds</i>)	30 November 1998
Mr Brian Sedgemore MP (<i>Labour, Hackney South and Shoreditch</i>)	16 July 1997
Sir Michael Spicer MP (<i>Conservative, Worcestershire West</i>)	16 July 1997
Sir Teddy Taylor MP (<i>Conservative, Rochford and Southend East</i>)	16 July 1997

On 17 July 1997, the Committee elected Mr Giles Radice as its Chairman.

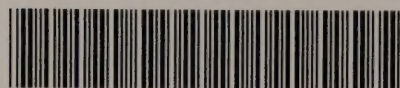
The Committee has the power to require the submission of written evidence and documents, to examine witnesses, and to make Reports to the House.

The Committee may meet at any time (except when Parliament is prorogued or dissolved) and at any place within the United Kingdom. The Committee may meet concurrently with other committees or sub-committees established under Standing Order No. 152 for the purposes of deliberating, taking evidence or considering draft reports. The Committee may meet concurrently with the House's European Scrutiny Committee (or any of its sub-committees) or the Environmental Audit Committee for the purposes of deliberating or taking evidence. The Committee may exchange documents and evidence with any of these committees, as well as with the House's Public Accounts and Deregulation Committees.

The Committee has power to appoint one Sub-committee, which has similar powers to the main Committee, except that it reports to the main Committee, which then reports to the House. All members of the Committee are members of the Sub-committee, and the Chairman is Sir Michael Spicer.

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/commons/selcom/treahome.htm. A list of Reports of the Committee in the present Parliament is at the end of this volume.

All correspondence should be addressed to The Clerk of the Treasury Committee, Committee Office, 7 Millbank, London SW1P 3JA. The telephone number for general inquiries is (020) 7219 5769; the Committee's e-mail address is: treascom@parliament.uk.



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¹ Previous members of the Committee: Mr Malcolm Bruce (*Liberal Democrat, Gordon*) (discharged on 31 July 1998); Dr Vincent Cable (*Liberal Democrat, Twickenham*) (appointed on 31 July 1998 and discharged on 22 November 1999); Mr Charles Clarke (*Labour, Norwich South*) (discharged on 9 November 1998); Mr Tony Colman (*Labour, Putney*) (discharged on 2 March 1998); Mr Quentin Davies (*Conservative, Grantham and Stamford*) (discharged on 15 June 1998); Mr Nick Gibb (*Conservative, Bognor Regis and Littlehampton*) (appointed on 15 June 1998 and discharged on 30 November 1998); Ruth Kelly (*Labour, Bolton West*) (discharged on 9 November 1998); Sir Peter Lloyd (*Conservative, Fareham*) (discharged on 5 July 1999); Dr Lewis Moonie (*Labour, Kirkcaldy*) (appointed on 9 November 1998 and discharged on 21 February 2000); Jacqui Smith (*Labour, Redditch*) (appointed on 9 November 1998 and discharged on 29 November 1999). Except where otherwise stated, these members were appointed on 16 July 1997.

NINTH SPECIAL REPORT

The Treasury Committee has agreed to the following Special Report:

THE PRIVATE FINANCE INITIATIVE: SUPPLEMENTARY GOVERNMENT RESPONSE TO THE COMMITTEE'S FOURTH REPORT OF SESSION 1999–2000

On 23 March we published a report on the Private Finance Initiative as our Fourth Report of Session 1999–2000 (HC 147). We received the Government's Response on 30 June and published it on 13 July as our Fifth Special Report (HC 706). At that time, however, the response to our recommendation (h) said simply that this was a matter for the Department of Health. We have now received a supplementary response dealing with this recommendation.

ADDENDUM TO THE GOVERNMENT'S RESPONSE TO THE TREASURY COMMITTEE'S FOURTH REPORT OF SESSION 1999–2000

Recommendation (h): The promotion of PFI projects has clearly led to a considerable and welcome increase in investment in hospitals. It is important to be able to demonstrate that value for money has been achieved; in the short term it is essential to construct valid Public Sector Comparators, and these should be supplemented in the longer term by comparisons between PFI hospitals and conventionally procured hospitals. We recommend also that the National Audit Office studies and reports on the issue of whether PFI procurements have resulted in more, fewer or the same number of beds as conventional procurements (paragraph 54).

The NHS Executive agree that a robust and accurately costed Public Sector Comparator (PSC) is essential. New guidance now sets out in detail how the Public Sector Comparator (PSC) should be developed and updated at every stage of the procurement process. The PSC presented in the Full Business Case (FBC) used for the value for money comparison should be up to date and reflect any changes made to the scope, functional content and allocation of risks in the scheme since the Outline Business Case (OBC). Independent checking is provided by the Quantity Surveyor employed by the NHS Trust for the project who must approve and sign off the risk contingencies for all stages of the project. Checking this again is also now one of the specific tasks of the Economic Advisor at the NHS Executive when the Full Business Case for the scheme comes up for approval.

PFI schemes are required to have monitoring systems in place to measure the performance of the private sector during both the construction and operational phases. All NHS Trusts are required to submit detailed estates and facilities returns to NHS Estates to enable compliance with statutory and safety requirements to be monitored and measured (eg Health and Safety). The NHS Performance Assessment Framework applies to all NHS Trusts and will include new performance indicators on patients' views, quality of service and the workforce, as well as efficiency; the results will be published annually. The Commission for Health Improvement will work closely with the Audit Commission on conducting independent inspections of every NHS organisation every four years. The measures will all ensure that the performance of both PFI and conventionally procured hospitals can be compared across a wide range of indicators.

The NHS Executive would welcome research by the National Audit Office (NAO) into the issue of bed numbers at PFI hospitals. We have provided figures to the Health Select Committee for all the 15 first wave PFI schemes and the more advanced second and third wave schemes, figures which are all publicly available. These show that the reductions in bed numbers at all these schemes are a result of the strategic planning process conducted for the Outline Business Case. This must be prepared and approved well before any decision is taken on which funding mechanism—PFI or public capital—should be used to actually build the new facilities. The figures show that the final bed numbers at each PFI scheme are virtually the same as those set out in the initial OBC.

The bed modelling in the OBCs for all these schemes focused on the same factors and indicators (eg: reductions in lengths of stay, increases in day surgery) which have led to the steady overall reduction in acute sector bed numbers over the past 30–40 years, and long before the PFI was introduced as a funding mechanism.

The National Beds Inquiry (NBI) found that the resulting reduced base could no longer support the current or planned capacity expected of the NHS. The NHS Plan reflects the NBI findings that the total number of acute sector and intermediate care beds needs to rise to meet the Government's pledges on reducing waiting times and delivering the "care closer to home" model of health care. All the schemes currently under construction—both PFI and publicly funded—are therefore being reviewed to check compliance with this strategy in terms of overall bed provision and flexibility. The NHS Executive is also committed to ensuring that it achieves further improvements in the way beds are managed across the whole local health economy to help the NHS deliver more and better patient care.

All new capital development proposals will have to comply with new planning guidance to be issued shortly which implements the requirements in the NHS Plan. Under the NHS Plan an independent reconfiguration panel is being established to advise Ministers on contested major changes.

The selection of topics for examination by the NAO is a matter for the Comptroller and Auditor General. The NAO have informed us that they have no plans at present to look at the effect of PFI on bed numbers, but they will consider the issue of bed numbers in any future examination of hospital PFI schemes.

October 2000

LIST OF TREASURY COMMITTEE REPORTS

[The Special Report listed after each main Report contains the Government's observations on the Report. Where a House of Commons Paper Number has a suffix -I, the evidence is published in one or more volumes separate from the Report]

Session 1997-98

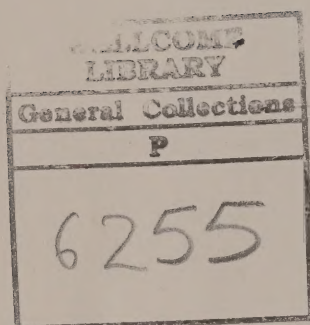
- First, Accountability of the Bank of England (HC 282) (Third Special, HC 502)
- Second, The Barnett Formula (HC 341) (Fourth Special, HC 619)
- Third, Confirmation Hearings (HC 571) (—)
- Fourth, The 1998 Budget (HC 647) (Fifth Special, HC 877)
- Fifth, The UK and Preparations for Stage Three of Economic and Monetary Union (HC 503-I) (Sixth Special, HC 905)
- Sixth, The Monetary Policy Committee of the Bank of England: Confirmation Hearings (HC 822-I) (—)
- Seventh, Bank of England: Operation of Accountability—One Year On (HC 993) (Seventh Special, HC 1111)
- Eighth, The New Fiscal Framework and the Comprehensive Spending Review (HC 960-I) (Eighth Special, HC 855)
- Ninth, The Mis-Selling of Personal Pensions (HC 712-I) (First Special, Session 1998-99, HC 140)

Session 1998-99

- First, Office for National Statistics (HC 43-I) (Second Special, HC 267)
- Second, The World Economy and the Pre-Budget Report (HC 91-I) (Third Special, HC 339)
- Third, Financial Services Regulation (HC 73-I) (Fourth Special, HC 347)
- Fourth, The 1999 Budget (HC 325) (Fifth Special, HC 536)
- Fifth, The Monetary Policy Committee of the Bank of England: Confirmation Hearings (HC 476-I) (—)
- Sixth, Inland Revenue (HC 199) (Sixth Special, HC 746)
- Seventh, Public Service Agreements (HC 378) (Seventh Special, HC 849)
- Eighth, The Monetary Policy Committee—Two years on (HC 505) (Eighth Special, HC 850)
- Ninth, Demutualisation (HC 605-I) (Ninth Special, HC 880)
- Tenth, Valuation Office Agency (HC 420) (First Special, Session 1999-2000, HC 197)

Session 1999-2000

- First, Research Assistance for Monetary Policy Committee Members (HC 43) (—)
- Second, HM Customs and Excise (HC 53) (Second Special, HC 442)
- Third, The International Monetary Fund (HC 72) (Fourth Special, HC 628)
- Fourth, The Private Finance Initiative (HC 147) (Fifth Special, HC 706, and Ninth Special, HC 942)
- Fifth, The 2000 Budget (HC 379) (Third Special, HC 572)
- Sixth, Government's Cash and Debt Management (HC 154) (Sixth Special, HC 869)
- Seventh, The Monetary Policy Committee of the Bank of England: Confirmation Hearings (HC 520-I) (Seventh Special, HC 859)
- Eighth, Economic and Monetary Union (HC 573-I)
- Ninth, Spending Review 2000 (HC 485) (Eighth Special, HC 941)
- Tenth, The Monetary Policy Committee of the Bank of England: Confirmation Hearing (HC 940)



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